

Message Text

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ACTION NEA-10

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-06 ISO-00 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

EB-07 FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05

OMB-01 PM-03 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 FRB-03 PA-01 PRS-01 /124 W

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R 200425Z JUL 75

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 3162

INFO AMEMBASSY ALGIERS

AMEMBASSY CARACAS

USINT BAGHDAD

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY TRIPOLI

AMEMBASSY TEHRAN

AMEMBASSY QUITO

AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY VIENNA

C O N F I D E N T I A L ABU DHABI 1514

BEIRUT POUCH BAGHDAD

E.O. 11652: GDS

TAGS: ENRG, TC

SUBJECT: OIL DEVELOPMENTS IN ABU DHABI

1. SUMMARY. WITH PRODUCTION FIGURES WAY UP FOR JUNE AND JULY,

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RELATIONS BETWEEN COMPANIES AND ABU DHABI AUTHORITIES ARE NOTABLY

EASIER. DIFFERENCES REMAIN OVER RATE OF DEVELOPMENT EXPENDITURE, HOWEVER, WITH ADPC OWNERS TAKING POSITION THAT FURTHER PRICE CONCESSIONS WILL HAVE TO BE GRANTED IF THEY ARE TO PUT UP THEIR SHARE OF CAPITAL INVESTMENT FOR ACCELERATED PROGRAM ADNOC WANTS. END SUMMARY.

2. LIFTINGS BY ON-SHORE PRODUCER ADPC AND OFF-SHORE PRODUCER ADMA RAN AT ABOUT 1 MILLION AND 500,000 B/D RESPECTIVELY IN JUNE AND FIGURE FOR ADPC IS EXPECTED TO BE EVEN HIGHER IN JULY. (THESE FIGURES DO NOT INCLUDE 110,000 B/D WHICH ADNOC IS SELLING ON ITS OWN.) FOR THESE TWO MONTHS COMPANY LIFTINGS ARE THUS RUNNING AT RATE WHICH IS WELL ABOVE YEARLY AVERAGE OF 1,200,000 B/D WHICH OWNERS OF TWO OPCOS HAVE GIVEN THEIR BEST ENDEAVOR UNDERTAKING TO LIFT IN RETURN FOR PRICE CONCESSIONS GRANTED THEM LAST SPRING. WITH EXPECTATION OF QUICKENING WORLD DEMAND IN THIRD AND FOURTH QUARTERS, OUTLOOK FOR INDUSTRY COMPANIES FULFILLING THEIR PART OF BARGAIN, AND PERHAPS EVEN MAKING UP FOR SOME OF EXPECTED SHORTFALL IN 300,000 B/D ADNOC IS SUPPOSED TO SELL, APPEARS GOOD.

3. RELATIONS BETWEEN COMPANIES AND ABU DHABI DEPARTMENT OF PETROLEUM ARE ACCORDINLY MUCH EASIER THAN THEY WERE LAST WINTER, AND WE EVEN HEAR THAT MINISTER PETROLEUM OTAIBA AND BP DIRECTOR STOCKWELL , WHO WERE EARLIER CARRYING ON PERSONAL VENDETTA, HAVE KISSED AND MADE UP. BUT THERE ARE STILL SOME UNRESOLVED PROBLEMS BETWEEN OPCOS AND THEIR PARTNER ADNOC ABOUT PACE AT WHICH DEVELOPMENT INVESTMENT SHOULD PROCEED. ALGERIAN MANAGING DIRECTOR OF ADNOC HAMRA-KROUHA HAS BEEN STUBBORNLY INSISTING ON ACCELERATED DEVELOPMENT WHICH COMPANIES FEEL IS UNJUSTIFIED ON TWO GROUNDS: FIRST, THAT PRESENT CAPACITY OF 1.28 MBD IS COMFORTABLY ABOVE PRESENT OR LIKELY FUTURE PRODUCTION; SECONDLY, THAT OWNERS PROFIT MARGIN, EVEN WITH BETTER TERMS GOVERNMENT RECENTLY GRANTED ADPC, IS STILL NOT SUFFICIENT TO GENERATE THEIR SHARE OF CAPITAL FOR ACCELERATED PROGRAM. ADPC HAS NOW RECEIVED LETTER FROM HAMRA-KROUHA TELLING THEM THAT IF THEY DO NOT AGREE TO HIS DEVELOPMENT PROGRAM ADNOC WILL FUND IT ON "SOLE RISK" BASIS ALSO CUTTING ADPC OUT OF ANY PROFITS DERIVING FROM DEVELOPMENT. ACCORDING TO ADPC SUM IN DISPUTE IS ABOUT \$110 MILLION IN EXPENDITURE THIS YEAR; ACCORDING TO ADNOC IT IS MUCH SMALLER FIGURE.

4. HOPING TO AVOID CONFRONTATION, BUT FINDING HAMRA-KROUHA DIFFICULT
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TO DEAL WITH, ADPC OWNERS ARE QUIETLY BUT PERSISTENTLY APPLYING TO OTAIBA FOR REVISED TERMS THAT WILL ENABLE THEM TO PROCEED WITH ADNOC'S DEVELOPMENT PLAN. WHEN THIS WAS EARLIER BROACHED WITH OTAIBA HIS INITIAL REACTION WAS THAT "NOTHING WAS POSSIBLE THIS YEAR" BECAUSE COMPANIES HAD "EMBARRASSED" HIM BY LEAKING SPECIAL AND SUPPOSEDLY SECRET 10 CENT REDUCTION ON 93 PERCENT OF POSTED PRICE FOR BUY-BACK OIL. MORE RECENTLY, HOWEVER, OTAIBA AGREED TO MEET WITH OWNERS IN LONDON TO DISCUSS SUBJECT.

5. SITUATION WITH RESPECT TO ADMA SOMEWHAT MORE STABLE, AT LEAST FOR TIME BEING. ACCELERATED DEPRECIATION WRITE-OFF ON CURRENT PRODUCTION AGREED TO LAST SPRING WILL PRODUCE ADDITIONAL \$150 MILLION WHICH IS TO BE SPREAD OVER TWO YEARS TO ENABLE ADMA TO PROCEED WITH DEVELOP-

MENT PROGRAM. BUT WHILE OWNERS APPARENTLY ARE PROCEEDING APACE WITH PROGRAM THIS YEAR, THEY HAVE STOPPED SHORT OF COMMITTING THEMSELVES FIRMLY TO CONTINUING EXPENDITURE AT SAME RATE NEXT YEAR UNLESS GOVERNMENT INDICATES ITS WILLINGNESS TO CONSIDER ADDITIONAL RELIEF IF COMPANIES CAN SHOW THIS IS JUSTIFIED.

6. WE HAVE FEELING THAT SUMS OF MONEY INVOLVED IN DIFFERENCES OVER RATE OF INVESTMENT ARE NOT SO GREAT THAT THEY COULD NOT BE RESOLVED BY NEGOTIATION IF COMPANIES SO WISHED, BUT THAT THEY ARE DRAGGING THEIR FEET TO SEE IF THEY CAN EXTRACT FURTHER PRICE CONCESSIONS ON CURRENT AND FUTURE LIFTINGS. HAVING EXPERIENCED UNPLEASANT FINANCIAL CRUNCH ABU DHABI WENT THROUGH LAST WINTER WHEN PRODUCTION PLUMMETED, COMPANIES MAY NOW BELIEVE THERE IS SOME MORE GIVE IN GOVERNMENT POSITION. ONE ITEM THAT REMAINS UNRESOLVED IS PRICE COMPANIES WILL HAVE TO PAY FOR AMOUNTS OF CRUDE THEY LIFTING OVER AND ABOVE THEIR 1.2 MBD UNDERTAKING OF LAST SPRING.
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